

AMENDED IN SENATE APRIL 16, 2015

**SENATE BILL**

**No. 687**

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**Introduced by Senator Allen**

February 27, 2015

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An act to add Section 39735 to the Health and Safety Code, *and to add and repeal Section 25327 of the Public Resources Code*, relating to energy.

LEGISLATIVE COUNSEL'S DIGEST

SB 687, as amended, Allen. Renewable gas standard.

The California Global Warming Solutions Act of ~~2006~~, 2006 establishes the State Air Resources Board as the state agency responsible for monitoring and regulating sources emitting greenhouse gases. The act requires the state board to adopt regulations to require the reporting and verification of statewide greenhouse gas emissions and to monitor and enforce compliance with this program. The act requires the state board to adopt a statewide greenhouse gas emissions limit, as defined, to be achieved by 2020, equivalent to the statewide greenhouse gas emissions level in 1990. The state board is required to adopt rules and regulations in an open public process to achieve the maximum technologically feasible and cost-effective greenhouse gas emission reductions. The act authorizes the state board to adopt market-based compliance mechanisms, as defined, meeting specified requirements. Existing law requires the state board to complete a comprehensive strategy to reduce emissions of short-lived climate pollutants, as defined, in the state.

Under existing law, the Public Utilities Commission has regulatory authority over public utilities, including gas corporations. Existing law requires the commission to adopt policies and programs that promote

the in-state production and distribution of biomethane, as defined, that facilitate the development of a variety of sources of in-state biomethane. Existing law requires the commission to adopt pipeline access rules that ensure that each gas corporation provides nondiscriminatory open access to its gas pipeline system to any party for the purposes of physically interconnecting with the gas pipeline system and effectuating the delivery of gas.

The Warren-Alquist State Energy Resources Conservation and Development Act establishes the State Energy Resources Conservation and Development Commission and requires it to prepare an integrated energy policy report on or before November 1, 2003, and every 2 years thereafter. The act requires the report to contain an overview of major energy trends and issues facing the state, including, but not limited to, supply, demand, pricing, reliability, efficiency, and impacts on public health and safety, the economy, resources, and the environment. Existing law requires the State Energy Resources Conservation and Development Commission to hold public hearings to identify impediments that limit procurement of biomethane in California, including, but not limited to, impediments to interconnection and to offer solutions to those impediments as part of the integrated energy policy report.

This bill would require the state board, on or before June 30, 2016, in consultation with the State Energy Resources Conservation and Development Commission and the Public Utilities Commission, to adopt a carbon-based renewable gas standard, as defined and specified, that requires all gas sellers, as defined, to provide specified percentages of renewable gas meeting certain deliverability requirements, to retail end-use customers for use in California, that increases over specified compliance periods. *The bill would authorize the state board to waive enforcement of the renewable gas standard upon certain showings being made by a gas seller.* The bill would require the state board, on or before January 1, 2017, to issue an analysis of the lifecycle emissions of greenhouse gases and reductions for different biogas types and end uses.

*The bill would require the State Energy Resources Conservation and Development Commission to provide the state board and the Legislature with an assessment of specified matter pertaining to renewable gas by January 1, 2018.*

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1     SECTION 1. The Legislature finds and declares all of the  
2 following:

3     (a) California has enacted numerous policies to reduce emissions  
4 of greenhouse gases and to increase the use of renewable energy  
5 resources and renewable fuels, including the California Global  
6 Warming Solutions Act of 2006 (Division 25.5 (commencing with  
7 Section 38500) of the Health and Safety Code), the California  
8 Renewables Portfolio Standard Program (Article 16 (commencing  
9 with Section 399.11) of Chapter 2.3 of Part 1 of Division 1 of the  
10 Public Utilities Code), the low carbon fuel standard (Executive  
11 Order S-01-07 (January 19, 2007); Title 17 California Code of  
12 Regulations Sections 95480 to 95490, inclusive), and the state's  
13 comprehensive strategy to reduce emissions of short-lived climate  
14 pollutants (Section 39730 of the Health and Safety Code).

15     (b) Use of natural gas causes more than one-quarter of all  
16 emissions of greenhouse gases in California. Wildfires cause more  
17 than one-half of all black carbon emissions, and organic waste is  
18 responsible for three of the state's five largest sources of methane  
19 emissions.

20     (c) Capturing and using methane gas from renewable sources  
21 (renewable gas) can significantly reduce emissions of greenhouse  
22 gases from fossil fuel use, organic waste, wildfires, and  
23 petroleum-based fertilizers. Using renewable gas in place of just  
24 10 percent of California's fossil fuel derived gas supply would  
25 reduce emissions of greenhouse gases by tens of millions of metric  
26 tons of carbon dioxide equivalent emissions per year. Renewable  
27 gas generated from organic waste provides the lowest carbon  
28 transportation fuels in existence and can provide low carbon,  
29 flexible fuel for the generation of electricity.

30     (d) Increasing use of renewable gas in California will protect  
31 disadvantaged communities by reducing air and water pollution  
32 from fossil fuel refining and combustion. Renewable gas used in  
33 place of diesel in heavy-duty vehicles will protect public health  
34 by reducing toxic air contaminants.

35     (e) Renewable gas provides significant economic benefits to  
36 California, including job creation, an in-state source of gas,  
37 increased energy security, revenue and energy for public agencies,

1 and revenue for dairies, farms, rural forest communities, and other  
2 areas.

3 (f) It is in the interest of the state to establish a renewable gas  
4 standard that will diversify and decarbonize California's gas  
5 supply, to provide lower carbon gas for electricity generation,  
6 transportation fuels, heating, and industrial purposes.

7 (g) A renewable gas standard will reduce emissions of  
8 greenhouse gases from the oil and gas sector and from the solid  
9 waste, food and agriculture, water and wastewater, and forestry  
10 sectors. It will increase in-state gas supplies and provide jobs and  
11 increased energy security for California.

12 (h) A renewable gas standard will help California to meet the  
13 waste diversion requirements of Section 41781.3, Article 1  
14 (commencing with Section 41780) of Chapter 6 of Part 2 of, and  
15 Chapter 12.9 (commencing with Section 42649.8) of Part 3 of,  
16 Division 30 of the Public Resources Code, by using diverted  
17 organic waste to produce renewable gas.

18 SEC. 2. Section 39735 is added to the Health and Safety Code,  
19 to read:

20 39735. (a) For purposes of this section, the following terms  
21 have the following meanings:

22 (1) "Biogas" means gas that is generated from organic waste or  
23 other organic materials, through anaerobic digestion, gasification,  
24 pyrolysis, or other technology that converts organic waste to gas.  
25 Biogas may be produced from, but not limited to, any of the  
26 following sources:

27 (A) Agricultural waste remaining after all reasonably usable  
28 food content is extracted.

29 (B) Forest waste produced from sustainable forest management  
30 practices.

31 (C) Landfill gas.

32 (D) Wastewater treatment gas and biosolids.

33 (E) Diverted organic waste, if the waste is separated and  
34 processed to (i) enhance the recovery of recyclable materials and  
35 (ii) minimize air emissions and residual wastes in accordance with  
36 applicable standards.

37 (2) "Eligible feedstock" means organic waste or other  
38 sustainably produced organic material and electricity generated  
39 by an eligible renewable energy resource meeting the requirements  
40 of the California Renewables Portfolio Standard Program (Article

1 16 (commencing with Section 399.11) of Chapter 2.3 of Part 1 of  
2 Division 1 of the Public Utilities Code).

3 (3) “Gas seller” means a gas corporation, as defined by Section  
4 222 of the Public Utilities Code, or another entity authorized to  
5 sell natural gas pursuant to natural gas restructuring (Chapter 2.2  
6 (commencing with Section 328) of Part 1 of Division 1 of the  
7 Public Utilities Code), including sales to core and noncore  
8 customers pursuant to natural gas restructuring.

9 (4) “Renewable gas” means gas that is generated from organic  
10 waste or other renewable sources, including electricity generated  
11 by an eligible renewable energy resource meeting the requirements  
12 of the California Renewables Portfolio Standard Program (Article  
13 16 (commencing with Section 399.11) of Chapter 2.3 of Part 1 of  
14 Division 1 of the Public Utilities Code). Renewable gas includes  
15 biogas and synthetic natural gas generated from an eligible  
16 feedstock.

17 (5) “Renewable gas standard” means the quantity of renewable  
18 gas that a gas seller is required to provide to retail end-use  
19 customers for use in California for each compliance period set  
20 forth in subdivision (b).

21 (b) (1) On or before June 30, 2016, the state board, in  
22 consultation with the State Energy Resources Conservation and  
23 Development Commission and the Public Utilities Commission,  
24 shall adopt a carbon-based renewable gas standard that requires  
25 all gas sellers to provide specified percentages of renewable gas  
26 to retail end-use customers for use in California. Each gas seller  
27 shall procure a minimum quantity of renewable gas for each of  
28 the following compliance periods:

29 (A) January 1, 2016, to December 31, 2019, inclusive. The state  
30 board shall require a gas seller to make reasonable progress  
31 sufficient to ensure that by the end of the compliance period not  
32 less than 1 percent of the gas supplied to retail end-use customers  
33 for use in California is renewable gas.

34 (B) January 1, 2020, to December 31, 2022, inclusive. The state  
35 board shall require a gas seller to make reasonable progress  
36 sufficient to ensure that by the end of the compliance period not  
37 less than 3 percent of the gas supplied to retail end-use customers  
38 for use in California is renewable gas.

39 (C) January 1, 2023, to December 31, 2024, inclusive. The state  
40 board shall require a gas seller to make reasonable progress

1 sufficient to ensure that by the end of the compliance period not  
2 less than 5 percent of the gas supplied to retail end-use customers  
3 for use in California is renewable gas.

4 (D) January 1, 2025, to December 31, 2029, inclusive. The state  
5 board shall require a gas seller to make reasonable progress  
6 sufficient to ensure that by the end of the compliance period not  
7 less than 10 percent of the gas supplied to retail end-use customers  
8 for use in California is renewable gas.

9 (E) January 1, 2030, and thereafter. The state board shall require  
10 a gas seller to ensure that not less than 10 percent of the gas  
11 supplied to retail end-use customers for use in California is  
12 renewable gas.

13 (2) Gas sellers shall be obligated to procure no less than the  
14 quantities associated with all intervening years by the end of each  
15 compliance period.

16 (c) Only renewable gas that meets any of the following  
17 conditions shall count toward meeting the procurement  
18 requirements of the renewable gas standard:

19 (1) The renewable gas is used onsite by an end-use customer in  
20 California.

21 (2) The renewable gas is used by an end-use customer in  
22 California and delivered through a dedicated pipeline.

23 (3) The renewable gas is delivered to end-use customers in  
24 California through a common carrier pipeline and meets all of the  
25 following requirements:

26 (A) The source of renewable gas injects the renewable gas into  
27 a common carrier pipeline that physically flows within California  
28 or toward the end-use customers for which the renewable gas was  
29 procured under the purchase contract.

30 (B) The source of renewable gas did not inject the renewable  
31 gas into a common carrier pipeline prior to March 29, 2012, or the  
32 source commenced injection of sufficient incremental quantities  
33 of renewable gas after March 29, 2012, to satisfy the purchase  
34 contract requirements.

35 (C) The seller or purchaser of the renewable gas demonstrates  
36 that the capture and injection of renewable gas into a common  
37 carrier pipeline directly results in at least one of the following  
38 environmental benefits to California:

39 (i) The reduction or avoidance of the emission of any criteria  
40 air pollutant in California.

1 (ii) The reduction or avoidance of pollutants that could have an  
2 adverse impact on waters of the state.

3 (iii) The alleviation of a local nuisance within California that  
4 is associated with the emission of odors.

5 (d) In adopting the renewable gas standard, the state board shall  
6 do all of the following:

7 (1) Notify all gas sellers in California of, and how to comply  
8 with, the renewable gas standard procurement requirements. The  
9 State Board of Equalization may supply the state board with  
10 information obtained as a result of its collection of the natural gas  
11 surcharge pursuant to Article 10 (commencing with Section 890)  
12 of Chapter 4 of Part 1 of Division 1 of the Public Utilities Code,  
13 to assist the state board in identifying those gas sellers that are not  
14 gas corporations, as defined in Section 222 of the Public Utilities  
15 Code. The Public Utilities Commission shall notify the state board  
16 of each gas corporation that provides gas service to end-use  
17 customers in California.

18 (2) Maintain and publicize a list of eligible renewable gas  
19 providers. For these purposes, an eligible renewable gas provider  
20 means any person or corporation that is able to supply renewable  
21 gas meeting the deliverability requirements of subdivision (c).

22 (3) Adopt a flexible compliance mechanism, such as tradable  
23 renewable gas credits, to increase market flexibility and reduce  
24 costs of compliance. If the state board adopts tradable renewable  
25 gas credits, those credits shall be based on the carbon intensity of  
26 the renewable gas and shall give equal value to renewable gas that  
27 is used onsite and renewable gas that is injected into a common  
28 carrier pipeline. The flexible compliance mechanism shall also  
29 allow for credit banking and borrowing. The state board shall  
30 consult with the State Energy Resources Conservation and  
31 Development Commission in developing any system for tradeable  
32 renewable gas credits.

33 (4) The state board shall consult with the Public Utilities  
34 Commission in the development of regulations to implement the  
35 renewable gas standard as they affect gas corporations, subject to  
36 regulation as public utilities by the commission, in order to  
37 minimize duplicative reporting or regulatory requirements.

38 (5) In consultation with the State Energy Resources  
39 Conservation and Development Commission and the Public  
40 Utilities Commission, adopt a coordinated investment plan to

1 ensure that moneys made available from revenues derived through  
2 adoption of a market-based compliance mechanism or through the  
3 Alternative and Renewable Fuel and Vehicle Technology Program  
4 or Air Quality Improvement Program, are used to reduce the costs  
5 to implement the renewable gas standard, including the costs of  
6 pipeline injection.

7 *(e) The state board shall waive enforcement of this section if it*  
8 *finds that the gas seller has demonstrated either of the following*  
9 *conditions are beyond the control of the gas seller and will prevent*  
10 *compliance:*

11 *(1) Permitting or other circumstances that delay renewable gas*  
12 *projects, or there is an insufficient supply of renewable gas*  
13 *resources available to the gas seller. In making a finding that this*  
14 *condition prevents timely compliance, the state board shall*  
15 *consider whether the gas seller has done all of the following:*

16 *(A) Prudently managed portfolio risks, including relying on a*  
17 *sufficient number of viable projects.*

18 *(B) Sought to develop its own renewable gas resources,*  
19 *pipelines, or pipeline interconnections to secure renewable gas*  
20 *resources.*

21 *(C) Procured an appropriate minimum margin of procurement*  
22 *above the minimum procurement level necessary to comply with*  
23 *the renewables gas standard to compensate for foreseeable delays*  
24 *or insufficient supply.*

25 *(D) Taken reasonable measures, under the control of the gas*  
26 *seller, to procure allowable tradable renewable gas credits.*

27 *(2) There is a disproportionate impact on commodity rates. The*  
28 *state board, in consultation with the Public Utilities Commission,*  
29 *shall establish a limitation for each gas seller on the expenditures*  
30 *for all renewable gas used to comply with the renewable gas*  
31 *standard. This limitation shall be set at a level that prevents*  
32 *disproportionate commodity rate impacts. In determining whether*  
33 *commodity rate impacts are disproportionate, the state board may*  
34 *consider the extent to which procurement required under this*  
35 *section results in a reduction in compliance costs for any other*  
36 *state obligation and may consider the availability of other*  
37 *incentives and credits that reduce the costs to ratepayers and*  
38 *noncore customers. If the cost limitation is insufficient to support*  
39 *the projected costs of meeting the renewable gas standard*



1 *requirements, the gas seller may refrain from procuring quantities*  
2 *in excess of those that can be procured within the limitation.*

3 *(f) (1) If the state board waives any compliance requirements*  
4 *of this section, the state board shall establish additional reporting*  
5 *requirements on the gas seller to demonstrate that all reasonable*  
6 *actions under the control of the gas seller are taken in each of the*  
7 *intervening years sufficient to satisfy future procurement*  
8 *requirements.*

9 *(2) The board shall not waive enforcement pursuant to this*  
10 *section, unless the gas seller demonstrates that it has taken all*  
11 *reasonable actions under its control, as set forth in subdivision*  
12 *(e), to achieve full compliance.*

13 ~~(e)~~

14 *(g) On or before January 1, 2017, the state board shall issue an*  
15 *analysis of the lifecycle emissions of greenhouse gases and*  
16 *reductions for different biogas types and end uses, including, but*  
17 *not limited to, electricity generation, transportation fuels, heating*  
18 *and industrial uses, and as a source of renewable hydrogen for fuel*  
19 *cells. The analysis shall include an assessment of other public*  
20 *health and environmental benefits, including benefits to*  
21 *disadvantaged communities, air and water quality, soil*  
22 *improvement, and wildfire reduction.*

23 *SEC. 3. Section 25327 is added to the Public Resources Code,*  
24 *to read:*

25 *25327. (a) For purposes of this section, “renewable gas” has*  
26 *the same meaning as defined in Section 39735 of the Health and*  
27 *Safety Code.*

28 *(b) On or before January 1, 2018, the commission shall provide*  
29 *an assessment of the following to the State Air Resources Board*  
30 *and the Legislature:*

31 *(1) Opportunities to colocate renewable gas production with*  
32 *existing vehicle fleets and other transportation fueling*  
33 *opportunities.*

34 *(2) Renewable energy production sites that can use the*  
35 *renewable gas onsite to reduce fossil fuel gas consumption for*  
36 *generation of electricity, heating, cooling, or other purposes.*

37 *(3) Renewable energy production sites that can cost-effectively*  
38 *interconnect to common carrier gas pipelines.*

39 *(4) Recommendations to reduce the costs of pipeline*  
40 *interconnection for renewable gas projects in California.*

1     (c) *The assessment to be submitted to the Legislature pursuant*  
2     *to subdivision (b) shall be submitted in compliance with Section*  
3     *9795 of the Government Code.*

4     (d) *Consistent with Section 10231.5 of the Government Code,*  
5     *this Section is repealed on January 1, 2020.*

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